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C O N F I D E N T I A L SECTION 01 OF 07 NAIROBI 000240

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FOR AF A/S FRAZER FROM THE AMBASSADOR

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TAGS: PREL PHUM PGOV KDEM KE

SUBJECT: KENYA'S ELECTORAL CRISIS - THE ROLE OF THE BUSINESS COMMUNITY

REF: NAIROBI 192

Classified By: Ambassador Ranneberger for Reasons 1.4(b,d)

Summary

¶1. (U) With the election crisis taking an ever greater toll on business interests (see reftel), the business community has become increasingly engaged in lobbying for a political solution. While it is hard to determine precisely what impact this will have, the voice of the business community is being heard clearly by both sides. End Summary.

¶2. (U) On January 18, representatives of the main Kenyan business association, the Kenya Private Sector Alliance (KEPSA), met separately with President Kibaki and Raila Odinga. They made the following presentation. Begin text.

Memorandum of the Business Community to the H.E. the President on the Occasion of the Meeting on 18th January, 2008

Representing the interests of more than 8,000,000 working Kenyans from the formal and informal business sectors through member associations of the Kenya Private Sector Alliance.

Background:

¶1. The Business Community is part and parcel of the Kenyan Society. It participated actively in Elections and was proud of the conduct of Kenyans then.

¶2. The Post election events are very distressing to all. The Kenyan Business Community pleads for urgent resolution of the same to prevent further loss of life, loss of property and the destruction of the environment for doing business.

¶3. The Business Community expresses deep concern and regret for the loss of life and property arising out of the December 27 Elections result announcements. The resultant violence and disruption are symptoms of other tensions that have been brought to the fore by the elections. It is important for the country to address this.

Estimation of the cost of the Post Election Violence on
Kenyan Business

The Loss to Business is expressed in terms of Loss of Staff, Loss of Property, Loss of Business Opportunities and Loss of Confidence.

¶1. Loss of Staff: Business lost staff to the crisis. Especially in areas affected by the violence, e.g. the Tea Estates and the towns affected. We had people fleeing to Uganda to escape the violence.

¶2. Ethnic Tension in the Workplace. For those who have reopened, we are losing harmony in the workplace and see tensions between persons of different communities.

¶3. Physical losses: Many businesses have lost property especially in the trouble spots of Eldoret, Kisumu and Kericho where business were targeted for physical destruction, e.g. burning and looting. Many small businesses in informal settlements have also been badly hit with loss of premises and inventory. We are continuing to receive information from businesses on physical damage. We currently have estimates of at least KSH 2 billion in property loss.

¶4. Loss of customers and supply outlets. The businesses destroyed in Eldoret, Kisumu, Kericho - both formal and informal settlements were key parts of the distribution chain for many businesses. The Western Kenya circuit represents about 35 percent of the market share of

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many in FMCG businesses. The informal settlements of Nairobi have also been hard hit with losses. We estimate that at least 40 per cent of the Kenya market has been disrupted and continues to be. While there will be some semblance of recovery, it will not attain the previous levels because of the displacement of persons, losses of property and difficulties of movement. Government estimates put the number of displaced persons at more than 250,000.

¶5. Loss of confidence:

a. Local investors and business owners in Kisumu and Eldoret have lost confidence and are expressing desires to relocate. In Kisumu some of the operators have already left for other countries. Others in Eldoret are ready to put up businesses for sale.

b. Loss of Confidence of external investors. Consistent negative international pressure has led to revisions of visions by foreign investors. Those who we have spoken to express extreme caution about Kenya and it will take a while to resume the confidence levels.

c. Our workforces now have fear as part of their daily lives.

¶6. Loss of Government Revenue. Estimate at loss of tax revenue by government of KSH 2 billion a day. This translates to loss of business and related activity amounting to KSH 10 billion a day. Therefore, with at least 10 days of non-operations, estimate loss of at least KSH 100 billion of productivity in addition to loss of property for January.

¶7. Loss of Economic Activity: Most businesses are now expecting a depressed first half of the 2008 year. In terms of loss over the next 6 months, anticipate a total loss of 20 per cent of economic activity, which translates to at least KSH 266 billion (even if there was no more disruption).

a. Tourism estimates loss of KSH 20 billion in first quarter. Sector has lost 12 of the 15 regular bi-weekly charters. It represents 80 per cent of all business. Cancellations are up to middle of year and no new bookings for the year have been received.

b. Manufacturing estimates losses of at least KSH 10 billion

c. Transport and Communication estimates losses of Ksh 30bln

d. Loss of Employment of at least 400,000 jobs. COTU (note: Confederation of Trade Unions) estimates at least 500,000 job losses.

e. The SMEs make up the final link in the distribution chain. They have borne the brunt of destroyed property, e.g. kiosks and shops in urban areas. We estimate losses of more than KSH 3 billion in terms of destroyed property.

¶8. Loss of reputation: The revision of S and P credit rating will affect the country's ability to attract investors and retain positive view by international community. Fitch Rating revision imminent. If Government cannot raise external resources, will predate on local liquidity. High interest rates loom once again.

¶9. Loss of market as regional hub. The disruption of regional transit traffic means that Kenya will now compete with other corridors that will emerge in order to reduce vulnerability of landlocked neighbors on the Kenyan corridor. Transit trade has been a large source of forex for Kenya. We cannot let it go.

¶10. We are hearing rumours of sanctions against Kenya. We must not give the opportunity to place sanctions on Kenya, as it has a far-reaching impact. It affects our external

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markets as well as sources of imports for the country.

¶11. Investors and Multinational with presence in Kenya are watching this keenly. As a country we need to give them an opportunity to make a long-term commitment to the country.

What Would Business Like Government to Do:

¶1. Short Term/practical needs revolve around creation of an enabling environment for resumption of pre-Dec 29th level of Business Operations.

a. Security to enable movement of goods and persons all over the country. To make deliveries and for staff to get to work. For suppliers and customers to move freely. Specific concern has been security on transport corridors and unblocking of roads with illegal road blocks.

b. Provision of reprieve/grace period for business of some fiscal obligations. Such includes reprieve from payment of advance taxes on ground of distressed business and inability to operate fully or collect from customers who are also distressed.

c. Need for reconstruction support. Many businesses lost property ? burnt farms, vehicles and building as well as inventory. We need to put together a Business Reconstruction Support Fund to assist in recovery. Insurance is invoking the 'political crisis' clause and not paying.

d. Need for Tourism Destination marketing support when crisis is over.

¶ 12. Political Settlement: As the President, business urges H.E. to lead a process of dialogue that will address and reduce the tensions in the country. A significant proportion of Kenyans do not recognize the announced results and it is important for the President to take the initiative to improve the level of public confidence and to show leadership that puts the Kenyan people first. We must start addressing the underlying tensions and fears. The tensions and violence have surfaced other fundamental tensions that must be addressed in a comprehensive political settlement.

¶ 13. The negotiated settlement needs to address these other fundamental issues which include:

- Commitment to reforms of process that caused crisis, e.g., the Electoral laws and institutions.
- Commitment to minimum strategic constitutional reforms ? power arrangement, and provisions for resolution of similar crises in future.
- Commitment to addressing regional inequality in the country that was highlighted during the campaigns
- Commitment to resettlement and reconstruction
- Commitment to process to resolve the land questions in the country especially in the Rift Valley and the Coast regions.
- Acceptable model for Devolution END TEXT.

¶ 13. (U) KEPSA issued a press release noting their concerns and the fact they met with both sides. KEPSA includes key American multi-nationals like General Motors, Eveready, Coca Cola, and the many others with significant interests in Kenya. KEPSA issued the following press release. Begin text.

KENYA PRIVATE SECTOR MEETINGS WITH HIS EXCELLENCY PRESIDENT KIBAKI AND HON. RAILA ODINGA

The Kenya Private Sector Alliance (KEPSA) with the East Africa Business Council represented by leaders of member associations; including the Federation of Kenya Employers, SME Federation, Hotel and Tourism Federation, Kenya Association of Manufactures (sic), Kenya Agricultural Society held meetings with H.E. President Kibaki and the Hon. Raila Odinga at separate times on 18th January 2008.

These talks were very candid about the problems Kenya has

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faced since the election results were announced. The Private Sector gave information about economic and social concerns our nation has experience (sic) during the crisis. These discussions also covered the following:

-Both the government and the opposition agreed to continue with dialogue towards a political settlement that is acceptable to both sides. There were no conditions placed for a meeting between the government and the opposition other than the opposition requesting the presence of an international mediator in the meetings.

-All parties regretted the loss of life, displacement of people and damage to property that has been experienced. It is difficult for all seeing the loss of any life.

-The Private Sector also communicated that many Kenyans would like to see faster resolution of the current political crisis and also for both parties to start the process of resolving some of the long standing problems that underlie the current crisis.

-The Private Sector also requested additional messages from both parties to stop the violence

-All parties, including the Private Sector felt there are opportunities to move forward in resolving this crisis. The Private Sector reminded everyone that the legacy of both leaders and the Nation is now being determined by the

wisdom reflected in their actions in resolving this crisis.

Steven G. Smith
Ag. Chairman
End text.

¶4. (C) In addition to the press release, KEPSEA also forwarded to me their notes from the meetings with both Government and the opposition. The notes are as follows:

Begin text:

Kenya Private Sector Alliance Meeting with Kenyan Government and Opposition on Friday, January 18, 2008

Government side discussion:

- In meeting with President ? Minister of Finance, Head of Civil Service, PS of Trade and Industry
- Meeting was from 10:30 to 13:30
- Gave an overview of the impact of the economy to date and for the next six months ? loss of 500,000 jobs, KSH 266 billion loss for first six months, no tourism expected for the year. Month of January most business will show a loss.
- Most at or under 50 percent of plans ? total loss for year will reduce business by 20 percent if situation is fixed now. We reminded that they must accept 50 percent of (the votes) were not for them and they must remember this in their messages and in how they are seen.
- Minister actual(ly) responded to issues from private sector ? President did not. He only talked about (the) church burning and the need to rebuild homes. (He) repeated this six times over a 20 minute period. Not sure what was going on here???? I and Minister tried four times to take him to other issues but he did not move and meeting (was) actual(ly) stopped by (the) Minister and me.
- (We) were told not to use Raila?s name in front of (the) President in a meeting with (the) head of civil service on Thursday ? but we did.
- We were told elections did happen ? use the court if you see a problem. Kibaki is the president. Many, including Raila?s team, signed off on election numbers only to revoke.

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- They feel they can wear out Raila ? (it) will take time and he will give in to them, is the opinion we walked away with. They feel he will start to lose the support of the people.
- Government insiders are trying to have close business ties with KEPSEA, etc.
- Government knows there are problems but actually does not feel (the) economy is in trouble ? (they) have enough reserves to handle (the) situation ? extra money coming from sale of Telecom and Safaricom.
- Have paid all contractors with certified invoices already ? from what we are hearing most of these companies are close to the government.
- (We) were told that they have sent out VAT refund early -- no one has seen.
- (We) were told we were first group to give such a full and candid report back to president? We took with a grain of salt. What we think was they knew most of what we were

saying but had not briefed the president.

- Indicated the reason they lost (the) House Speaker's position was because the opposition told Members of Parliament they must show (their) ballot and if they voted for government or thought they voted for government, their houses would be burned.

- Most of the killings are not their fault.

- (The government) agreed to a meeting with Raila only to have a letter come with articles they could not accept. This agreement was worked on by the World Bank and Raila's team ? Many stories on this letter ? it appears it may have come from some people in the government.

- Governments want business to demand the stopping of mass actions.

- We should help invite others to come see the president.

- Told them their messages were not clear and not presidential. People do not see them trying to resolve any situation. They are not humble in activities and this only brings more problems.

- They gave us a copy of a Jan. 7 letter ? Raila says he did not get??? Many questions around the timing of this letter requesting a meeting with Raila. They gave us a copy of the letter.

- At least two government persons have had their houses burned.

- We were given (a) government news release on (the) team to lead post-election crisis talks.

- They say they will meet with no preconditions.

- Opinion - (The government) is not serious about meeting Raila ? (they) feel they can ride this thing out. Still very hard line.

Opposition Side Discussions:

- Raila, (ODM vice Presidential Candidate Musalia) Mudavadi, (ODM Pentagon member William) Ruto, (ODM Secretary General) Anyang? Nyongo, Joe, Charles (last two

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unknown)

- Meeting was from 14:45 to 18:30

- Mistrust at every level. Haven't forgotten MOU with President in last election.

- (Recently nominated Vice President) Kalonzo (Musyoka) was

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called Judas.

- (ODM) [w]ill not sit in any meeting with a team lead by Kalonzo or with (Minister of Justice) Martha (Karua) as a member

- (ODM) [w]ill only meet with Kibaki with an international mediator

- They will target (with economic boycott) only firms they feel are close to Kibaki. These are people who continue to support him.

- Do not want a position in Government; will not accept a position and if someone does; they will call person's MP

seat vacant.

- They say (someone) was giving up to KSH 20 million to get a vote change for house speaker. They are of the opinion that the government cannot believe they lost speaker's position.

- When asked why they have targeted specific business(es) for mass action; they say they had not. When give(n) the news release they changed topic. We reminded this could get out of hand.

- Told them message to people not clear and they need to stop the actions which were moving people out of area and violence. Their comment was it was the government causing all the problems. How could they be doing these things which all locations have K (meaning unclear).

- GSU needs to be removed from the streets and violence will stop. Felt police force had tried to help the situation.

- Two of the young boys killed were relatives of (ODM) Pentagon members.

- They know business is hurting. They also feel it will only take 3 months to recover from any business losses during these difficult times.

- We were asked how can we support a government who attacks hospitals.

- The indicated Government are sick people and liars ? they (are) not telling truth about election, letters, who is killing people ? Continued to say we (ODM) are telling the truth, they (government) are not.

- Believe government is using the military at every level to control people, etc. This is how people are being displaced.

- When we would raise issues about displaced people they (ODM) would go to other topics. Could not get them to address but then said it was the government and not them.

-We told them message of no violence was not being heard and they need to be clear in this message.

- They will continue to put pressure on economy at any level.

- We did ask them about rumors within business of specific ethnic community being asked to sabotage business. They did not respond only saying this is government at work.

- We reminded them 50 percent of votes for Kibaki. They have to remember this when giv(ing) messages.

- (ODM) feels the nation knows the government stole the election and saw it on TV; this gives them (ODM) the right to do what they are doing. It is not the election that is the real problem. You must treat the disease which is years of issues not addressed ? land, equal distribution of wealth, etc.

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- Our opinion is (ODM) have decided to go the distan(ce) to get what they want ? Kibaki out. End Text.

¶5. (U) Since the outset of the crisis, we have also been seeking to energize the extremely influential Kikuyu business community. These efforts have included a number of individual meetings, and a breakfast I hosted with a core group on January 17. The Kikuyu business people are generally wary of getting too directly involved in the

current crisis. While Kikuyu business interests (which dominate the economy) are being negatively impacted by the crisis, they see no alternative other than support for Kibaki's government, and some believe the government hardliners' propaganda that the current troubles will dissipate over time if the government remains firm against compromise with Odinga. Still, the fact that these Kikuyu business people have been so ready to talk with us about the political situation reveals the level of their concern. We understand that they are seeking to make their concerns known to the President, but discreetly, and not particularly as an organized group.

¶6. (U) During the breakfast, I broached the idea of business people creating a fund to assist all those affected by violence (not just Kikuyus who have been displaced), and they are following up. Several of the most influential Kikuyu businessmen are linked to religious groups and have ties to the congressional prayer breakfast.

¶7. (U) We are continuing intensive efforts to stimulate the business community to become more outspoken publicly on the need for a political solution, and to use their leverage privately with both sides.

RANNEBERGER